




JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 12, 2014

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **SANTA ANITA FAMILY SERVICE, INC. – A COMMUNITY AND SENIOR
SERVICES AND DEPARTMENT OF PUBLIC SOCIAL SERVICES
PROGRAMS PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Santa Anita Family Service, Inc. (SAFS or Agency). Our review covered a sample of transactions from Fiscal Years (FY) 2012-13 and 2013-14.

Community and Senior Services (CSS) contracts with SAFS to provide Workforce Investment Act (WIA) Program services to eligible in-school and out-of-school youth ages 14 to 21 years. The Agency also contracts with the Department of Public Social Services (DPSS) to provide Community Service Block Grant (CSBG) Program services to eligible low-income individuals and families.

The purpose of our review was to determine whether SAFS appropriately accounted for and spent WIA and CSBG Program funds to provide the services outlined in their County contracts. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with their contracts and other applicable guidelines.

CSS paid SAFS approximately \$1 million for two cost-reimbursement contracts during FY 2013-14. DPSS paid SAFS approximately \$338,600 for 12 fee-for-service contracts during FYs 2012-13 and 2013-14. DPSS' contracts require the Agency to return or reinvest any unspent revenue. SAFS provides WIA Program services to residents of the First Supervisorial District and CSBG Program services to residents of the First and Fifth Supervisorial Districts.

Results of Review

SAFS did not maintain adequate internal controls over their fiscal operations. SAFS' staff lacked a solid understanding of financial accounting and reporting which significantly impacted the Agency's fiscal integrity and controls to safeguard Program funds. In addition, SAFS' fiscal operations lacked appropriate higher-level supervisory review typically performed by a Chief Financial Officer or equivalent.

The issues we noted with SAFS' fiscal operations were also noted in SAFS' Single Audit Report for FY 2012-13. The auditors reported that the SAFS manager responsible for overseeing the accounting staff lacked a solid understanding of financial accounting and reporting, and the existing accounting staff did not always appear to have the necessary understanding of U.S. Generally Accepted Accounting Principles to properly record transactions for financial reporting purposes. The auditors also reported that the areas of non-compliance noted in their review were very significant. After our review, SAFS hired a full-time Accounting Manager, a Certified Public Accountant, to oversee the Agency's accounting function.

In reviewing WIA and CSBG Program expenditures, we noted that SAFS staff did not provide documentation to support the allocation methods identified in their Cost Allocation Plan (Plan) or follow their Plan in allocating the shared expenditures reviewed. For example, SAFS inappropriately allocated 96% or \$6,626 (\$3,308 WIA + \$3,318 CSBG) of the \$6,879 in shared expenditures reviewed.

SAFS also did not provide adequate documentation, such as invoices or canceled checks, to support eight (80%) of the ten non-payroll expenditures reviewed, totaling \$2,129, that the Agency billed to the WIA Program. For the remaining two WIA expenditures reviewed, totaling \$1,179, SAFS provided invoices and canceled checks that indicated SAFS paid the invoices after requesting reimbursement from CSS which is not allowed.

Due to the issues noted with SAFS' accounting records, the high percentage of undocumented expenditures reviewed, and the unsupported expenditure allocations, we cannot validate the accuracy of the amounts SAFS billed to the WIA and CSBG Programs.

In addition, we noted other fiscal related issues that are not directly related to the WIA or CSBG Programs, which raises concerns regarding the Agency's financial condition. Specifically, SAFS:

- Incurred \$5,160 in overdraft fees from January 2013 through December 2013. According to SAFS, the overdrafts were the result of cash flow issues due to the State of California (State) delaying reimbursement to SAFS directly for non-WIA/non-CSBG program expenditures. SAFS indicated that the State's

implementation of a new accounting system caused the delay, and that this issue was resolved in Calendar Year 2014.

- Did not resolve the reconciling items identified on their bank reconciliations in a timely manner as required by Section B-1.4 of the Auditor-Controller Contract Accounting and Administration Handbook. The December 2013 and January 2014 bank reconciliations listed reconciling items over 180 days old, totaling \$2,094 and \$1,945 respectively.

It is imperative that SAFS correct the deficiencies noted in our report. If the Agency does not correct the deficiencies and cannot support their billings, CSS and DPSS should place the Agency in the County's Contractor Alert Reporting Database or terminate their contracts with the Agency.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with SAFS, CSS, and DPSS in November 2014. SAFS' attached response indicates agreement with our findings and recommendations. CSS and DPSS will work with SAFS to ensure that our recommendations are implemented.

We thank SAFS management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC

Attachments

- c: Sachi A. Hamai, Interim Chief Executive Officer
Cynthia D. Banks, Director, CSS
Sheryl L. Spiller, Director, DPSS
Barbara Cavalier, Board President, SAFS
Fred Loya, Ph.D, Executive Director, SAFS
Public Information Office
Audit Committee

**SANTA ANITA FAMILY SERVICE, INC.
WORKFORCE INVESTMENT ACT AND
COMMUNITY SERVICE BLOCK GRANT PROGRAMS
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2012-13 AND 2013-14**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether Santa Anita Family Service, Inc. (SAFS or Agency) had adequate internal controls over their fiscal operations. In addition, determine whether the Agency was in compliance with the Workforce Investment Act (WIA) Program, Community Service Block Grant (CSBG) Program, and other County contract administrative requirements.

Verification

We interviewed Agency personnel, conducted on-site reviews, and reviewed their policies and procedures manuals, single audit reports, and their reported accruals.

Results

SAFS did not maintain adequate internal controls over their fiscal operations. During our reviews of the WIA and CSBG Programs, we noted that SAFS staff lacked a solid understanding of financial accounting and reporting which significantly impacted the Agency's fiscal integrity and controls to safeguard Program funds. As noted later in the report, the Agency's accounting records did not accurately reflect the amounts they billed to Community and Senior Services (CSS) for the WIA Program and the Department of Public Social Services (DPSS) for the CSBG Program. As a result, we could not determine the appropriateness of the Agency's billings to the County.

SAFS' fiscal operations also lacked appropriate higher-level supervisory review typically performed by a Chief Financial Officer or equivalent. After our reviews, SAFS hired a full-time Accounting Manager, a Certified Public Accountant, to oversee the Agency's accounting function.

The staff's lack of financial accounting knowledge and its impact was also noted in SAFS' Single Audit Report for the Fiscal Year (FY) 2012-13. The auditors reported that the SAFS employee responsible for overseeing the accounting staff lacked a solid understanding of financial accounting and reporting, and the existing accounting staff did not always appear to have the necessary understanding of U.S. Generally Accepted Accounting Principles to properly record transactions for financial reporting purposes. The Single Audit Report also noted that the accounting records that SAFS provided contained several misstatements and adjustments that should have been corrected prior to the auditor's review.

We also noted other fiscal related issues that were not directly related to the WIA or CSBG Programs but raise concerns regarding the Agency's financial condition. The Agency incurred \$5,160 in overdraft fees from January 2013 through December 2013. According to SAFS, the overdrafts were the result of cash flow issues due to delays in the State of California (State) reimbursing SAFS directly for non-WIA/non-CSBG program expenditures. SAFS indicated that the delays were a result of the State implementing a new accounting system, and that this issue was resolved in Calendar Year 2014.

SAFS also did not always comply with WIA procurement and accrual reporting requirements. Specifically, SAFS:

- Did not use competitive selection in their procurement of the facility lease as required by WIA Directive D-DWA-00-037. SAFS did not conduct a cost analysis and/or obtain the required number of price quotes for their facility lease, or provide documentation to support the procurement solicitation of their facility lease.
- Did not report expenditure accruals as required by WIA Directive WIAD10-05.

Recommendations

Santa Anita Family Service, Inc. management:

1. **Ensure their accounting records reflect their actual fiscal activity.**
2. **Ensure that accounting staff are qualified to perform financial accounting and reporting duties in compliance with U.S. Generally Accepted Accounting Principles and the County contracts.**
3. **Obtain the services of a Chief Financial Officer or equivalent to perform higher-level supervisory review over accounting staff.**
4. **Ensure compliance with the Workforce Investment Act administrative procurement and expenditure accrual reporting requirements.**

ELIGIBILITY

Objective

Determine whether SAFS provided services to individuals who met the WIA and CSBG Programs' eligibility requirements.

Verification

We reviewed the case files for 30 (8%) of the 384 participants who received WIA Program services from July 2013 through February 2014 for documentation to confirm

their eligibility for WIA Program services. We also reviewed the case files for 26 (33%) of the 80 participants who received CSBG Program services during December 2013 for documentation to confirm their eligibility for CSBG Program services.

Results

SAFS had documentation to support the eligibility for all 26 CSBG participants reviewed. However, SAFS did not maintain adequate documentation as required by WIA Directive LACOD-WIAD11-03 to support the eligibility for eight (27%) of the 30 WIA participants reviewed. Subsequent to our review, SAFS provided appropriate documentation to support the eligibility for five of the eight WIA participants.

Recommendations

Santa Anita Family Service, Inc. management:

5. **Determine the cost (direct and indirect) associated with the services provided to the three ineligible participants and repay Community and Senior Services.**
6. **Ensure staff obtain appropriate documentation to determine the participants' eligibility for Workforce Investment Act Program services.**

BILLED/PROGRAM SERVICES

Objective

Determine whether SAFS provided services in accordance with their County contracts and WIA and CSBG guidelines, and whether the Program participants received the billed services.

Verification

We reviewed the case files for 30 (8%) of the 384 participants who received WIA Program services from July 2013 through February 2014. We also reviewed the case files for 26 (33%) of the 80 participants who received CSBG Program services during December 2013.

Results

SAFS appropriately provided the Program services in accordance with their County contracts to the 56 (30 WIA and 26 CSBG) participants reviewed. In addition, the case files for the 56 participants reviewed had documentation to support that SAFS provided the Program services.

However, SAFS did not always update the appropriate databases to report the WIA services provided. Specifically, SAFS did not register nine (60%) of the 15 WIA out-of-school youth participants reviewed on the State's Employment Development Department's (EDD) CalJOBS system, as required by WIA Directive LACOD-Y D13-04. CalJOBS is an internet system linking employers with individuals seeking employment, and is used to help participants obtain employment while enrolled in the WIA Program. Subsequent to our review, SAFS registered the nine participants on EDD's CalJOBS system.

Recommendation

7. **Santa Anita Family Service, Inc. management ensure staff update the State's Employment Development Department's CalJOBS system as required.**

CASH/REVENUE

Objective

Determine whether SAFS properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and that bank account reconciliations were prepared, and reviewed and approved by Agency management timely.

Verification

We interviewed SAFS' personnel and reviewed their financial records. We also reviewed the Agency's bank statements and bank reconciliations for December 2013 and January 2014.

Results

SAFS properly recorded revenue in their financial records and deposited cash receipts into their bank account timely. In addition, the bank reconciliations were prepared timely and reviewed by Agency management.

However, SAFS did not resolve its reconciling items identified on their bank reconciliations in a timely manner as required by Section B-1.4 of the Auditor-Controller Contract Accounting and Administration Handbook. Specifically, the December 2013 and January 2014 bank reconciliations listed reconciling items over 180 days old, totaling \$2,094 and \$1,945, respectively. Although these reconciling items were not related to the WIA or CSBG Programs, SAFS should ensure that reconciling items are investigated and resolved timely.

Recommendation

8. Santa Anita Family Service, Inc. management ensure reconciling items are investigated and resolved timely.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether SAFS' Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures billed to the WIA and CSBG Programs were allowable under their County contracts, properly documented, and accurately billed.

Verification

We interviewed SAFS' personnel, and reviewed their Plan and financial records for ten non-payroll expenditures, totaling \$3,308, that the Agency charged to the WIA Program from December 2013 through January 2014. We also reviewed financial records for ten non-payroll expenditures, totaling \$3,571, that the Agency charged to the CSBG Program from August 2012 through December 2013.

Results

SAFS prepared their Plan in compliance with their County contracts. However, the Agency inappropriately allocated shared non-payroll expenditures charged to the WIA and CSBG Programs based on unallowable or unsupported methods instead of actual conditions as required. Specifically, the Agency used unallowable or unsupported methods to allocate 96% or \$6,626 (\$3,308 WIA and \$3,318 CSBG) of the \$6,879 in shared expenditures reviewed to the WIA and CSBG Programs.

In addition, SAFS also did not provide adequate documentation, such as invoices or canceled checks, to support eight (80%) of the ten WIA non-payroll expenditures reviewed. For the remaining two WIA non-payroll expenditures reviewed totaling \$1,179, SAFS provided invoices and canceled checks that indicated SAFS paid the invoices after requesting reimbursement from CSS which is not allowed. SAFS also billed the CSBG Program \$93 in travel expenditures that the Agency indicated were billed in error.

Due to the significant issues noted above, we cannot validate the accuracy of the amounts allocated and billed to the WIA and CSBG Programs.

Recommendations

Santa Anita Family Service, Inc. management:

9. **Reallocate all shared expenditures charged to the Workforce Investment Act Program and Community Service Block Grant Program during Fiscal Years 2012-13 and 2013-14, provide Community and Senior Services or the Department of Public Social Services with supporting documentation, and repay any overbilled or unsupported amounts.**
10. **Maintain documentation for allowable expenditures and request reimbursement from Community and Senior Services only after paying invoiced expenditures.**
11. **Repay the Department of Public Social Services \$93.**

PAYROLL AND PERSONNEL

Objective

Determine whether SAFS charged payroll costs to the WIA and CSBG Programs appropriately and maintained personnel files as required.

Verification

We compared the WIA payroll costs for five employees and ten participants, totaling \$16,928 for January 2014, to the Agency's payroll records and time reports. In addition, we compared the CSBG payroll costs for six employees, totaling \$3,877 for December 2013, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for two WIA Program staff and six CSBG Program staff.

Results

SAFS maintained the personnel files as required. However, SAFS inappropriately allocated shared payroll expenditures to the WIA and CSBG Programs based on budgeted and not actual conditions as required. This issue is similar to the issue noted in the Expenditure/Cost Allocation Plan section of this report covering non-payroll expenditures.

In addition, the Agency's payroll costs did not reconcile to their accounting records. For example, we noted that SAFS did not maintain documentation, such as worksheets or journal entries, to support \$5,638 in payroll adjustments billed to the CSBG Program in December 2013. As noted in the Administrative Controls/Contract Compliance section of this report, we identified significant issues that impacted the fiscal integrity of SAFS' accounting records. As a result, we cannot validate the accuracy of the payroll expenditures billed to the WIA and CSBG Programs.

Recommendation

Refer to Recommendation 9.

CLOSE-OUT REVIEW**Objective**

Determine whether SAFS had any unspent revenue for the CSBG Program for Fiscal Year (FY) 2012-13.

Verification

We traced the total revenues and expenditures from SAFS' FY 2012-13 close-out reports to the Agency's accounting records, and to DPSS' payment records.

Results

SAFS' close-out reports for FY 2012-13 indicated that they did not have any unspent revenue for FY 2012-13. However, SAFS did not properly record CSBG Program transactions in their accounting records, and did not ensure their accounting records were accurate and complete, as discussed above. As a result, SAFS' close-out reports for FY 2012-13 were not adequately supported by the Agency's accounting records.

Recommendation

12. Santa Anita Family Service, Inc. management revise their accounting records based on the recommendations above, provide the Department of Public Social Services with revised close-out reports for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.



Santa Anita Family Service

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11/14/2014

Dear John Naimo,

This letter is in response to the Auditor- Controller October 15, 2014 report recommendations.

Recommendation #1. Santa Anita Family Service, Inc. management ensure the accounting records actually reflect their fiscal activity.

Response #1. In order to ensure the accounting records reflect their fiscal activity, we have hired 2 degreed accountants to review and audit all the balances to ensure their accurate reflection of the fiscal activity.

Recommendation #2. Santa Anita Family Service, Inc. management ensure that accounting staff are qualified to perform financial accounting and reporting duties in compliance with the U.S. Generally Accepted Accounting Principles and the County contracts.

Response #2. In order to ensure that the accounting staff is qualified to perform financial accounting and reporting duties in compliance with U.S. GAAP and County contracts, we have hired a Certified Public Accountant with an active license who keeps up on changes to the GAAP through continuing education. He will also supply training to his staff through appropriate classes and webinars.

Recommendation #3. Santa Anita Family Service, Inc. management obtain the services of a Chief Financial Officer or equivalent to perform higher-level supervisory or review function over accounting staff.

Response #3 We have obtained the services of a Certified Public Accountant with more than 20 years experience to perform a higher level supervisory function over the accounting staff.

Recommendation #4. Santa Anita Family Service, Inc. management ensure compliance with the Workforce Investment Act administrative procurement and expenditure accrual reporting requirements

Response #4. SIFS is going to be using an approved administrative procurement and expenditure accrual for any Workforce Investment Act expenditures.

Recommendation #5. Santa Anita Family Service, Inc. management determine the cost (direct and indirect) associated with the services provided to the three ineligible participants and repay Community and Senior Services.

Response #5. The three ineligible participants were actually found to be eligible and we provided the documentation necessary to prove the eligibility of the participants.

Recommendation #6. Santa Anita Family Service, Inc. management ensure staff obtain appropriate documentation to determine the participants' eligibility for Workforce Investment Act Program services.

Board of Directors

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Response #6. The person we hired to take charge of the WIA program activities has made great strides in make sure that staff is adequately trained to know what documentation is required from the participants in order to participate in the WIA program.

Recommendation #7. Santa Anita Family Service, Inc. management ensure staff update the California's Employment Development Department's CalJOBS system as required.

Response #7. SAFS has made updating the CalJOBS a priority so that all participants have been registered with CalJOBS and are available to employers looking to hire individuals.

Recommendation #8. Santa Anita Family Service, Inc. management ensure reconciling items are investigated and resolved timely.

Response #8. With the recent qualified accounting staff hired, SAFS has reviewed all outstanding checks over one month old to determine if the payee had the check and had not cashed it, or it was lost and needed to be replaced. Then appropriate action was taken to get the mater resolved.

Recommendation #9. Santa Anita Family Service, Inc. Reallocate all shared expenditures charged to the Workforce Investment Act Program and Community Service Block Grant Programs during Fiscal Years 2012-13 and 2013-14, provide Community and Senior Services or the Department of Public Social Services with supporting documentation, and repay any overbilled or unsupported amounts.

Response #9. We have done the reallocation of expenditures charged to the WIA and CSBG programs for the 13-14 fiscal year and have provided documentation to the Community and Senior Services. Our reallocation was based on a study of the square footage required by each program. We are currently also working on a reallocation of 2012-2013 shared expenses to the CSBG programs and will provide documentation to DPSS upon completion. We did not have a WIA contract in 12-13, therefore there is no 12-13 allocation for WIA.

Recommendation #10. Santa Anita Family Service, Inc. maintain documentation for allowable expenditures and request reimbursement from Community and Senior Services only after paying invoiced expenditures.

Response #10. We are currently asking for reimbursements of expenditures from Community and Senior Services only after payment for the services have been made.

Recommendation #11. Santa Anita Family Service, Inc. repay the Department of Public Social Services \$93.

Response #11. On November 6, 2014 we paid this \$93 back with check #34411.

Recommendation #12. Santa Anita Family Service, Inc. management revise their accounting records based on the recommendations above, provide the Department of Public Social Services with revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.

Response #12. Santa Anita Family Service is currently reviewing the close out reports for 2012-2013 to determine revisions required and make sure that all CSBG Program expenditures are adequately supported by our accounting records. After the reallocation of expenditures, we will provide DPSS revised CSBG close out reports for FY 2012-2013.

If you have any questions, regarding these issues, please feel free to contact, Fred Loya (Ext. 5782) or David Plumb (Ext. 5770). Thank you.

Sincerely,



Page 3

A handwritten signature in black ink, appearing to read "David W. Plumb", written over a horizontal line.

David W. Plumb, C.P.A.
Accounting Manager

A handwritten signature in blue ink, appearing to read "Fred Loya", written over a horizontal line.

Fred Loya, Ph.D.
Executive Director

